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# Governor's Energy Task Force

November 21, 2003

# Questions

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⇒ Should the default supplier be authorized to request PSC approval of rate based generation as a resource to meet its default supply obligations?

⇒ Should the default supplier be given authority to request advance approval for rate base generation?

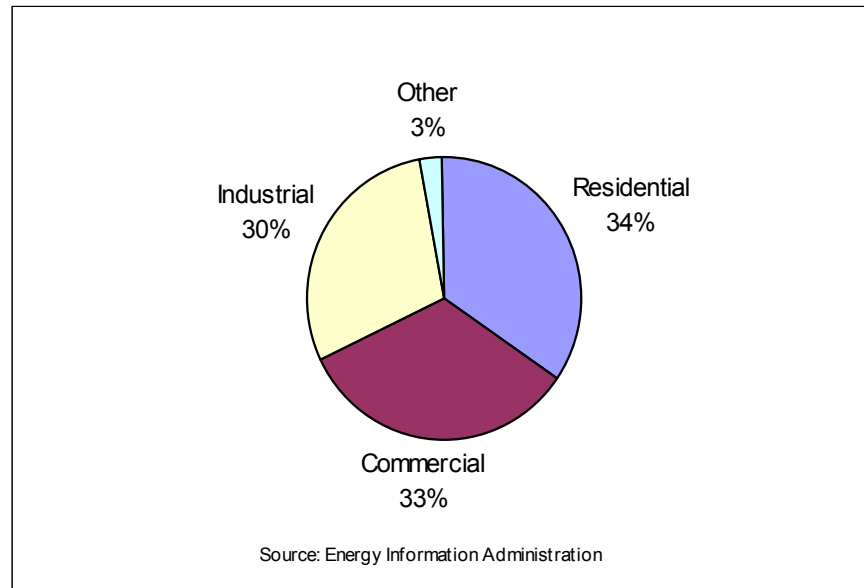
⇒ Should the default supplier be authorized to request PSC approval of rate based generation as a resource to meet its default supply obligations?

- The Governor's charge to the Committee is to examine how customers can receive the most affordable prices over the long term.
- While this is a policy decision, we do not believe it is the best way to achieve the goal of most affordable prices over the long term.

# First, let's discuss the load

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- Load in Montana is approximately evenly divided between residential, commercial, and industrial customers.

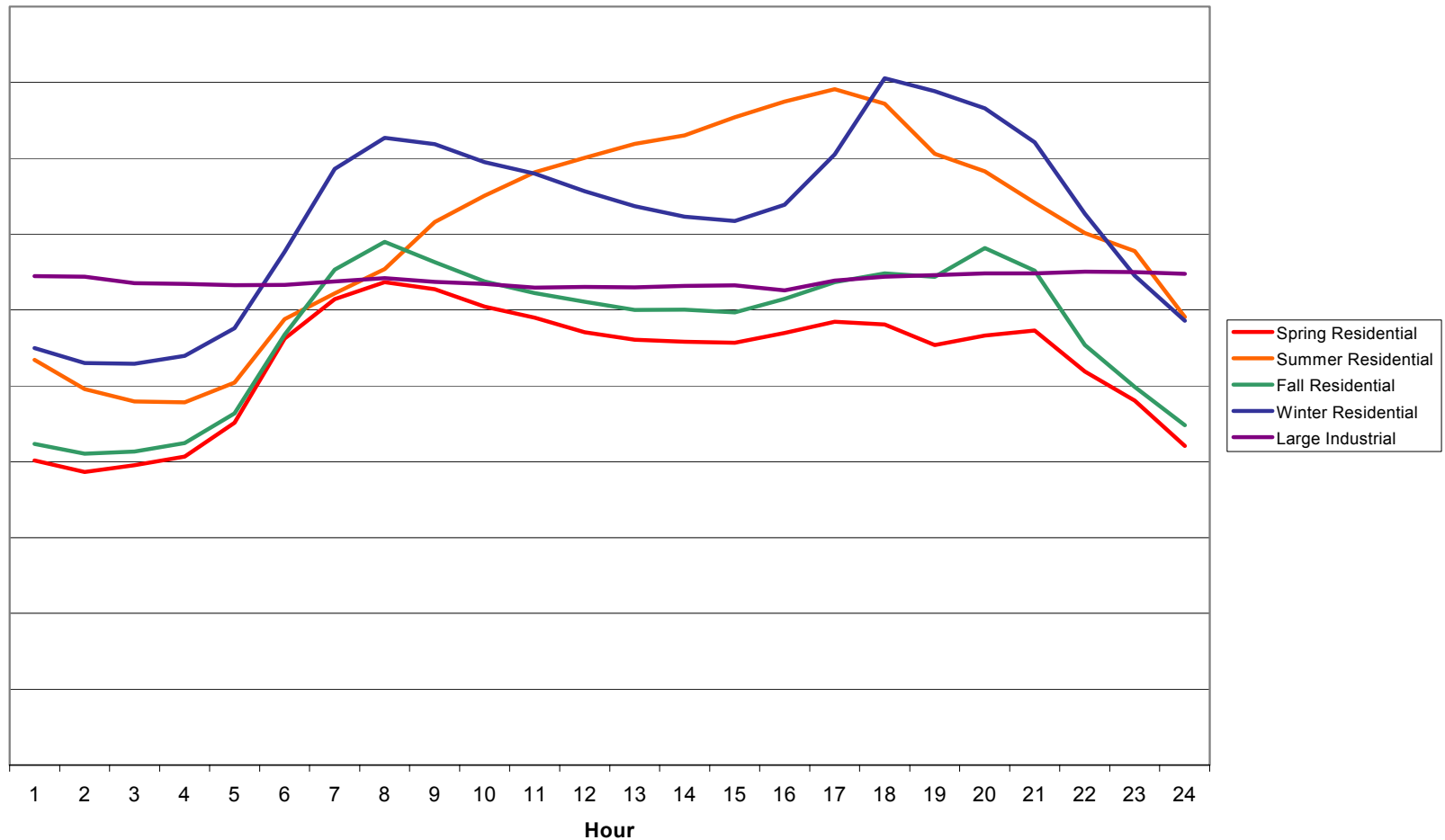


- Default supply load is comprised primarily of residential and commercial customers.

The default supply represents a highly variable load shape.



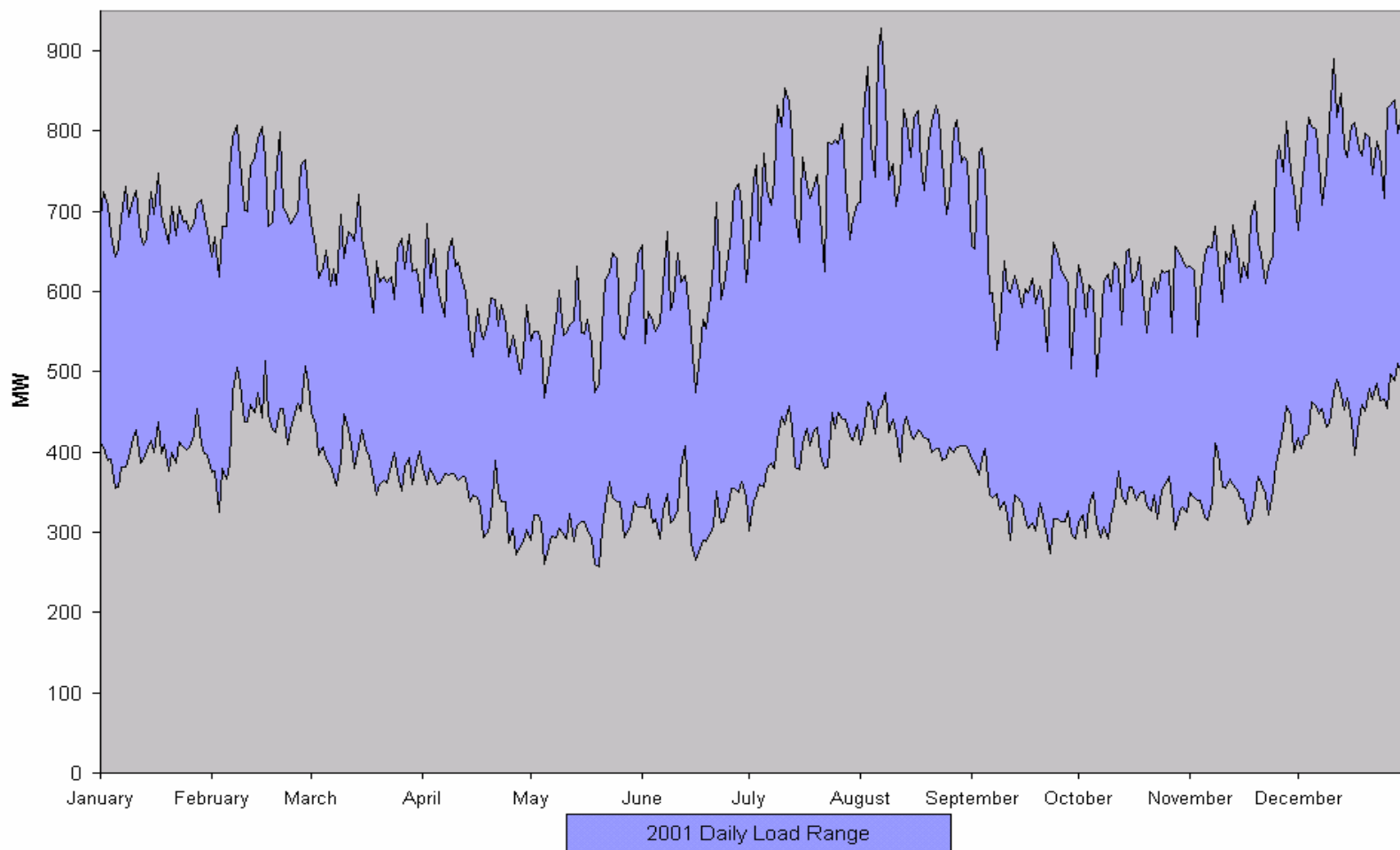
## Typical Montana Load Shape



# Load . . .



Load Shape



# Default Supply

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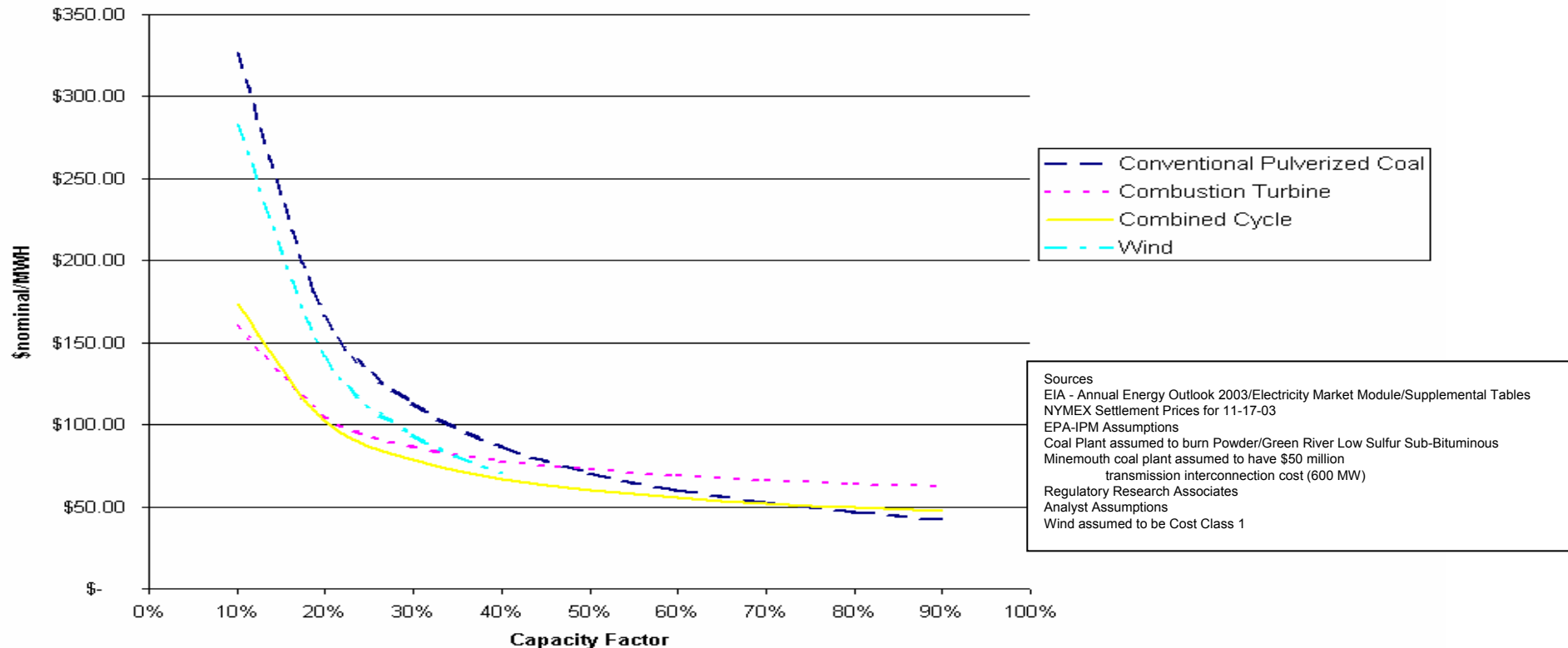
- What are important issues for NWE to consider in supplying this variable load?
  - Cost
  - Product Selection
  - Reliability and Diversity of location

# Cost should be the primary consideration



- New Generation

Illustrative Average Total Costs (\$/MWH) by Capacity Factor of Plants (2006 In-Service Date)



- Non-transparent costs can be significant  
(Grid expansion, firming costs, fixed gas transportation costs)

- Competitive Procurement
  - Default Provider should be required to follow an approved IRP process that procures from the market the lowest cost resources to meet its needs.
  - Independent auctions sanctioned by the regulator (open and transparent process)
  - Shift risk to meet variable load away from ratepayers to suppliers

# Product Selection

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The idea behind product selection is to best meet the variable load shape while shifting risk to suppliers and away from ratepayers.

- Baseload Products vs. Shaped Products
- Full Requirements vs. Slice of Load
- Firm vs. Unit Contingent
- Long Term vs. Short Term

# Reliability and Diversity of Location

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- Multiple facilities
- Location close to the load
- Forced outage and maintenance history

# RTO's - Another way to get there

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- RTO's will enhance wholesale competition by:
  - Eliminating transmission rate pancaking across systems
  - Providing equal access to grid by all participants
  - Providing greater access to new sources of supply
  - Simplifying transactions
  - Making ancillary services more available
- The expected result is lower costs and increased reliability.
- Montana is burdened with the high transmission rate of \$4.66/MWh and losses of 4%. Through the RTO process, this is likely to go down.

⇒ Should the PSC be required to “pre-approve” contracts a developer may have entered into with the default supplier in order to obtain financing for the project?

- PPL has no position.
- Pre-approval raises numerous prudence concerns.
- This is a policy decision for the legislature and PSC.

- Absent a full requirements contract, the Default Provider should be required to follow an approved IRP process that procures from the market the lowest cost resources to meet its needs.
- To achieve the lowest cost, solicitations should be made on a regular basis and include a variety of products and terms that protect consumers against market fluctuations.
- An effective process will appropriately place the risk of market volatility on suppliers rather than consumers.